

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

**City and County of Midland
Joint Building Authority
Annual Financial Statement and
Auditor's Report**

**For the year ended
June 30, 2006**



CITY AND COUNTY OF MIDLAND JOINT BUILDING
AUTHORITY

Annual Financial Statement

and

Auditor's Report

For the year ended

June 30, 2006

Board of Directors

Herbert Doan - Chairman

Bridgette Gransden - Secretary

Karl Tomion - Treasurer

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY
ANNUAL FINANCIAL STATEMENT
FOR THE YEAR ENDED
JUNE 30, 2006

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Midland, Michigan

We have audited the accompanying basic financial statements of the City and County of Midland Joint Building Authority as of June 30, 2006 and 2005 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the City and County of Midland Joint Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City and County of Midland Joint Building Authority as of June 30, 2006 and 2005 and the change in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquires of management regarding methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

August 1, 2006

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using This Annual Report

This annual report consists of the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows. Along with the footnotes, they provide detailed financial information concerning the City and County of Midland Joint Building Authority (the "Authority"). This section, the management's discussion and analysis, is intended to provide an overview of the Authority's financial condition, results of operations, and other key information.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the purpose of the Authority. The Authority was formed in 1993 to finance, construct, and operate the Midland Law Enforcement Center. The Authority's income primarily comes from rental income from its two tenants: The City of Midland Police Department (66.99 percent), and the Midland County Sheriff Department (33.01 percent).

The following table shows the major components of net assets as of June 30, 2006, 2005, and 2004:

	2006	2005	2004
ASSETS			
Current	\$ 326,450	\$ 318,357	\$ 281,444
Noncurrent and restricted	2,008,742	2,287,856	2,510,556
Total assets	2,335,192	2,606,213	2,792,000
LIABILITIES			
Current	262,599	272,696	264,463
Noncurrent	1,690,450	1,932,950	2,180,650
Total liabilities	1,953,049	2,205,646	2,445,113
NET ASSETS			
Restricted	318,292	354,906	329,906
Unrestricted	63,851	45,661	16,981
Total net assets	\$ 382,143	\$ 400,567	\$ 346,887

The 2006 balance of net assets of \$382,143 is allocated \$255,998 to the City of Midland, and \$126,145 to the County of Midland. The same allocation for 2005 would be \$268,340 and \$132,227, respectively. This allocation for 2004 was \$232,379 and \$114,508, respectively.

The entire statement of net assets can be found on page 4 of this report, which will provide a greater level of detail than shown in the above table.

During the year ended June 30, 2006, net assets decreased by \$18,424. This was a planned decrease to utilize excess funds that had accumulated through the previous year. The following table summarizes the change in net assets for the years ending June 30, 2006, 2005, and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue			
Rental income	\$ 289,862	\$ 303,792	\$ 254,208
Finance income from long-term lease	70,307	74,708	86,188
Other	<u>14,828</u>	<u>7,076</u>	<u>6,769</u>
Total revenue	<u>374,997</u>	<u>385,576</u>	<u>347,165</u>
Expenses			
Building and grounds maintenance	93,807	91,763	112,811
Utilities	112,537	100,058	92,974
Interest on bonds	70,307	74,708	86,188
Other	<u>116,770</u>	<u>65,367</u>	<u>76,637</u>
Total expenses	<u>393,421</u>	<u>331,896</u>	<u>368,610</u>
Change in net assets	(18,424)	53,680	(21,445)
Net assets - beginning	<u>400,567</u>	<u>346,887</u>	<u>368,332</u>
Net assets - ending	<u>\$ 382,143</u>	<u>\$ 400,567</u>	<u>\$ 346,887</u>

The entire statement of revenues, expenses, and changes in net assets is provided on page 5 of this report.

Contacting the Authority's Management

This financial report is intended to provide the City of Midland and the County of Midland with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives from its two tenants. If you have questions about this report, the Authority may be contacted for additional information.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 81,450	\$ 68,357
Lease Receivable, net of unearned finance income of \$297,735 in 2006 and \$368,042 in 2005 - current	245,000	250,000
- noncurrent	1,690,450	1,932,950
Restricted Assets (for construction and major maintenance) - Cash	<u>318,292</u>	<u>354,906</u>
Total Assets	2,335,192	2,606,213
LIABILITIES		
Accounts Payable	17,599	22,696
Bonds Payable - net of unamortized issuance discount of \$19,550 in 2006 and \$22,050 in 2005 - due within one year	245,000	250,000
- due after one year	<u>1,690,450</u>	<u>1,932,950</u>
Total Liabilities	<u>1,953,049</u>	<u>2,205,646</u>
NET ASSETS		
Restricted for construction	103,348	103,348
Restricted for major maintenance	214,944	251,558
Unrestricted	<u>63,851</u>	<u>45,661</u>
Total Net Assets	<u><u>\$ 382,143</u></u>	<u><u>\$ 400,567</u></u>

See Notes to Financial Statements.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30

	<u>2006</u>	<u>2005</u>
REVENUE		
Rental Income	\$ 289,862	\$ 303,792
Finance Income from Long-Term Lease	70,307	74,708
Interest Income	<u>14,828</u>	<u>7,076</u>
Total Revenue	<u>374,997</u>	<u>385,576</u>
EXPENSES		
Audit and Legal	3,500	4,000
Insurance	18,931	18,537
Interest on Bonds	70,307	74,708
Utilities	112,537	100,058
Building and Grounds Maintenance	93,807	91,763
Equipment Maintenance	94,089	42,580
Bond Agent Fees	<u>250</u>	<u>250</u>
Total Expenses	<u>393,421</u>	<u>331,896</u>
CHANGE IN NET ASSETS	(18,424)	53,680
NET ASSETS - Beginning of Year	<u>400,567</u>	<u>346,887</u>
NET ASSETS - End of Year	<u><u>\$ 382,143</u></u>	<u><u>\$ 400,567</u></u>

See Notes to Financial Statements.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities		
Cash Received from Lease Contracts	\$ 289,862	\$ 303,792
Payments to Suppliers for Goods and Services	<u>(328,211)</u>	<u>(268,955)</u>
Net Cash Provided by (Used In) Operating Activities	(38,349)	34,837
Cash Flows from Capital and Related Financing Activities		
Cash Received from Capital Lease Contract	317,807	302,408
Principal and Interest Payment on Bonds	<u>(317,807)</u>	<u>(302,408)</u>
Net Cash Provided by Capital and Related Financing Activities	-	-
Cash Flows from Investing Activities		
Interest Received on Investments	<u>14,828</u>	<u>7,076</u>
Increase (Decrease) in Cash	(23,521)	41,913
Cash - Beginning of Year	<u>423,263</u>	<u>381,350</u>
Cash - End of Year	<u><u>\$ 399,742</u></u>	<u><u>\$ 423,263</u></u>
Reconciliation of Operating Income to Cash Flows from Operating Activities		
Operating Income (Loss)	\$ (33,252)	\$ 46,604
Increase (Decrease) in Current Assets and Liabilities		
Accounts Payable	(5,097)	(2,062)
Deferred Rent Revenue	<u>-</u>	<u>(9,705)</u>
Net Cash Provided by (Used In) Operating Activities	<u><u>\$ (38,349)</u></u>	<u><u>\$ 34,837</u></u>
Balance Sheet Classification of Cash		
Unrestricted Cash	\$ 81,450	\$ 68,357
Restricted Cash	<u>318,292</u>	<u>354,906</u>
	<u><u>\$ 399,742</u></u>	<u><u>\$ 423,263</u></u>

See Notes to Financial Statements.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 and 2005

NOTE 1 - REPORTING ENTITY

The City and County of Midland Joint Building Authority (the "Authority") was incorporated in 1993 to finance, construct, and operate the Midland Law Enforcement Center. The Midland Law Enforcement Center is owned by the Authority and is leased to the City of Midland Police Department and the Midland County Sheriff Department. The Authority is governed by a three-person board with the City and County each appointing one member and with the third member being mutually appointed.

The financial operations of the Authority are presented as a joint venture in the annual financial statements of both the City of Midland and the County of Midland. In accordance with generally accepted accounting principles, there are no component units included in these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental building authorities. The following is a summary of the more significant policies:

A. Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - For State and Local Governments*, issued in June 1999.

B. Fixed Assets

The Authority has lease contracts with the City of Midland and the County of Midland covering the Midland Law Enforcement Center, which was constructed by the Authority (see Note 4). Since these leases represent financing transactions, the Authority has recorded the contracts as a receivable in lieu of recording the Law Enforcement Center facilities as assets.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

The Authority uses the accrual method of accounting except for interest on the lease contracts receivable and bonds payable, which are recorded as revenue and expense on their due dates. The construction costs of the Law Enforcement Center were capitalized as incurred. At the time the facility was complete and turned over to the City and County, those costs were reclassified based on a capital lease signed by the City and County and recorded at the net present value of future lease contract payments. Any additional expenses relating to construction and not provided for at the time the facility was completed are expensed as incurred.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

<u>Deposits</u>	<u>2006</u>	<u>2005</u>
Net Carrying Amount	\$ 399,742	\$ 423,263
Bank Balance	399,742	423,263
Federal Depository Insurance	100,000	100,000
Uninsured/Uncollateralized	299,742	323,263

The Authority held no investments at June 30, 2006 and 2005.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 and 2005

NOTE 4 - LEASE CONTRACTS AND RESTRICTED ASSETS

Noncancellable long-term leases are in effect with both the City of Midland and the County of Midland. Operating leases provide for payment of rents amounting to 64.8 percent of the Authority's annual operating costs by the City and 35.2 percent by the County. The City and County are also obligated for 66.99 percent and 33.01 percent, respectively, of the Authority's debt service costs.

The leases covering debt service costs are financing transactions under which the Authority issued general obligation limited tax bonds for the purpose of constructing the Midland Law Enforcement Center. Rental payments under the lease agreements, which are pledged as collateral for the bonds, have been set at the amount estimated as necessary to meet principal and interest payments due on the bonds. Upon retirement of the bonds, ownership of the facility will be turned over to the City and the County.

Under the agreements, bond proceeds are restricted for the purpose of construction or making bond principal and interest payments. In addition, certain amounts are required to be set aside in a reserve for major maintenance, the use of which is restricted for the purpose of financing repairs to the major structural and system components of the Law Enforcement Center.

Details of the lease contracts covering debt service costs that the Authority has entered into with the City of Midland and the County of Midland are as follows:

	<u>2006</u>	<u>2005</u>
Lease contract receivable, interest included	<u>\$ 2,233,185</u>	<u>\$ 2,550,992</u>
Net receivable, on statement of net assets	<u>\$ 1,935,450</u>	<u>\$ 2,182,950</u>
Interest rate used for lease contract	<u>same as bonds</u>	<u>same as bonds</u>
Assets restricted for:		
Construction	\$ 103,348	\$ 103,348
Major Maintenance	<u>214,944</u>	<u>251,558</u>
Total	<u>\$ 318,292</u>	<u>\$ 354,906</u>

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 and 2005

NOTE 5 - BONDS PAYABLE

The Authority's 1994 Bonds were issued to finance construction of the Midland Law Enforcement Center. In March 2003, the 1994 Bonds, with a principal balance remaining of \$2,550,000 and an average interest rate of 6 percent were refunded for \$2,665,000 in new bonds with a 3.4415 percent average interest rate. Bond principal and interest payments are included in the tenants' rental rate and are secured by the full faith and credit of both municipalities. The bonds were sold at 1 percent discount, which will be amortized over the 10-year life of the bonds. The payment schedule for the bonds is as follows:

Fiscal Year End June 30	Principal Maturing May 1	Interest Rate	Interest Due Nov 1	Interest Due May 1	Total Principal and Interest
2007	\$ 245,000	2.50%	\$ 31,404	\$ 31,404	\$ 307,808
2008	265,000	2.60	28,341	28,341	321,682
2009	260,000	3.00	24,896	24,896	309,792
2010	280,000	3.25	20,996	20,996	321,992
2011	300,000	3.50	16,446	16,446	332,892
2012	295,000	3.65	11,196	11,196	317,392
2013	310,000	3.75	5,813	5,814	321,627
	<u>\$1,955,000</u>		<u>\$139,092</u>	<u>\$139,093</u>	<u>\$2,233,185</u>

Note 6 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Authority participates in the Michigan Municipal League Property and Liability Pool for claims relating to property and liability. The Pool programs operate as common risk-sharing/management programs for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The Authority's maximum deductible for property and liability coverage is \$1,000 per occurrence.